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TELECON

Mr. Yeo/Secretary Kissinger

August 21, 1976

Time: 9:31 a.m.

K: How are you?

Y: Fine. I wanted to call you to see if you wanted any further description of the Mexican situation.

K: What Mexican situation?

Y: Mexico is practically broke.

K: Is it Mexico or Brazil.

Y: It is Mexico.

K: He told me it was Brazil.

Y: The...

K: What he discussed with me is that we are trying to bail out...

Y: We are attempting to ehlp...

K: No, no, the only reason I am confused Ed is because he told me in Kansas City that he was -- that Brazil was broke.

Y: Well, the ...

K: Are those...

Y: In the first instance it involves Mexico and the jist is that they have about \$23-25 billion in debt and they have \$150 million in reserves. They are losing \$150 million a week.

K: Then the question is do we want to bail out Echeverria?

Y: There are two questions. The first instance is there is a question of whether it is even bailable. There is a question of whether we get the IMF, which I have done, there is a question of whether the situation can be saved in the financial sense or whether they will have to reschedule the debt. If they do that we will have a bunch of badly bent bankers. Our people have \$10 billion down there. The shock of this would badly affect Brazil -- the financial shock.

K: I see.

Y: Because in reality the Mexican situation is one of the greatest financial con jobs of all time. They concealed their numbers -- there is no one in the financial community that has any idea of the situation.

K: Can this wait until Monday morning.

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K: The reason I ask is I promised to take my wife to Camp David, and if I don't leave the office within an hour I may have a divorce on my hands.

Y: I wanted you to know about it now because Echeverria is under tremendous pressure.

K: To do what?

Y: If he decides to save the situation he has to accept a brutal devaluation.

K: Which he said he would never do.

Y: But he has to because of the line up of events, not because of what we are telling him. By reducing the budget deficit he has to reverse everything he has done to save it. People are telling him about the realities of the situation -- not realities manufactured by us.

K: He could turn on us.

Y: That is the second alternative. He could declare a debt moratorium, impose controls and turn on us.

K: I think that is more likely. What do we do then?

Y: Well, I think there are a number of things we could do to prepare the way. There is one final thing -- he would join OPEC in wxchange for some money.

K: He will do that in practice if not in name. That knocks him off the GSP.

Y: He is sitting under enormous pressure -- facing great humiliation.

K: Can I propose this -- can I get my people to work over the weekend and we get together at 9:30 on Monday morning or is that too late?

Y: No, no. I will be here this weekend working. The only thing I have had a very limited group in the Treasury working on this for fear it will leak out. If it does that then rather than make it through the next week it wouldn't make it through Monday afternoon.

K: Let me put to work here Rogers and Shlaudemann and tell them not to have more than one other person working on it, if that is possible in this organization. Whom should they get in touch with, you?

Y: Fine.

K: Let's meet at 9:30 Monday morning.

Y: Fine.

K: O.K. Good.